

1918—



—1947

Entered as 2nd class matter

MR. PAUL F. MANLEY
17917 SCHNELEY AVE.
CLEVELAND 19, OHIO

CLM-1

FOREIGN POLICY BULLETIN

An interpretation of current international events by the Research Staff of the Foreign Policy Association

FOREIGN POLICY ASSOCIATION, Incorporated

22 East 38th Street, New York 16, N. Y.

VOL. XXVII, No. 5

NOVEMBER 14, 1947

HARRIMAN REPORT BALANCES EUROPE'S NEEDS AND U. S. RESOURCES

THE economic recovery of Western Europe is of vital importance to the national interest of the United States; therefore, this country must provide the required assistance even though "a substantial burden" will fall on the American people. That, in brief, is the substance of the report submitted to President Truman on November 7 by his nineteen-member Committee on Foreign Aid. Appointed on June 22 to determine the limits within which the United States could safely and wisely extend the aid to Europe envisaged in the Marshall proposal of June 5, this representative group of private citizens, with Secretary of Commerce W. Averell Harriman as chairman, has drawn on the findings of the Krug and Nourse committees set up on the same date to study other phases of the problem. The citizens' group has also had before it the elaborate report prepared in Paris by the sixteen-nation Committee on European Economic Cooperation (CEEC), which was forwarded to Washington on September 18.

As a result of this background preparation, Congress, in deciding the amount of assistance this country could give the members of the Paris conference, will have before it an unusually complete inventory of American resources and European needs. The Harriman report is an elaborate analysis of all the supply and demand factors involved in United States aid to Europe.

PARIS REPORT EVALUATED. In its report, the Harriman committee emphasizes that our aid should be conditional on the determination of the Paris conference participants to do all in their power to fulfill the production and monetary goals set forth in their four-year economic plan. No stipulations, however, should be made as to the methods employed to reach these objectives "so long as they are consistent with basic democratic principles." Any

attempt to make our aid conditional on the adoption abroad of the American system of free enterprise, the committee points out, "would constitute an unwarranted interference with the internal affairs of friendly nations." However, certain basic requirements must be met if a recovery program is to succeed. These relate to the problem of internal financial and monetary stability, which the report of the CEEC agrees must be achieved if its production plan is to be successful. Admittedly, the curbing of inflation is not merely a matter of reduction in the volume of purchasing power; there must also be a larger volume of production—and to achieve this, our aid will be necessary.

Examining the production goals fixed in the Paris report, the Harriman committee expresses the opinion that "in terms of basic necessities" they are not excessive, since actually the member nations will eat less in 1951 than they did in 1938, even if their program is a complete success. With respect to plans

For background information on issues to be discussed at the meeting of the Council of Foreign Ministers on Germany to be held in London beginning November 25, read:

AMERICAN POLICY TOWARD GERMANY by

JAMES K. POLLOCK, Adviser on Governmental Affairs to General Clay in 1945-46 and 1947, and

EDWARD S. MASON, Chief Economic Adviser to Secretary of State Marshall at the Moscow Conference of 1947.

25 cents

November 1 issue of FOREIGN POLICY REPORTS
REPORTS are issued on the 1st and 15th of each month.
Subscription \$5; to F.P.A. members, \$4.

Contents of this BULLETIN may be reprinted with credit to the Foreign Policy Association.

for capital expansion, however, the committee does not believe that the projected increases can, or should, be attempted. Europe must restore its capital plant if in time it is to become self-supporting, but "to reach their goals in four years, the European nations propose, in effect, to engineer a postwar boom of gigantic proportions." Such a program, if maintained, will create additional inflationary pressures, since there would be too great a diversion of resources from the production of consumer goods and exports. Outlays on capital formation would tend to exceed the volume of savings and thus require a credit expansion, thereby adding to the funds in the hands of consumers. Yet even if savings and investments are in balance, expenditures on capital construction do not add immediately to the supply of consumer goods but instead increase consumer demand. Therefore, the Harriman committee is convinced that unless the proposed tempo of capital formation is reduced—i.e., there is less housing and economic development—efforts to stabilize prices will fail. Moreover, the imports which would be required by the Paris plan cannot in any event be furnished in full by the United States.

On the basis of its surveys of available supplies of food and raw materials, the President's study group also finds that the Paris report's assumptions about imports are much too optimistic. The expectation that the United States can supply nine million tons of grain in 1948 is considered valid only if there is a favorable crop yield next year. The urgent need of France and Italy for food imports is readily admitted, and every effort, it is stated, should be made to supply these requirements at once. But the lack of fall rains and a short corn crop in 1947 will seriously affect the capacity of this country to continue such aid through 1948. Should there be a small crop here next year, the result would be a supply crisis of the first magnitude. The report warns that every effort must be made to increase food production in Europe and overseas. For this reason, it is recommended that steps be taken to speed up our exports of nitrogenous fertilizers to Europe; and that peace and stability be restored in the colonial areas of France and the Netherlands in order that rice production there might be increased. In short, Europe's dependence on the United States for food must be reduced as speedily as possible.

All in all, the Harriman report finds that the estimates of the CEEC for both imports and exports must be revised downward. This country cannot supply in full the Paris steel requirements because of acute shortages here; there is also an insufficient supply of transport equipment, cotton, petroleum, heavy electrical machinery, and so on. As to European exports, the factors limiting imports below

those contemplated by the CEEC program will reduce surpluses available for sale abroad. According to the committee too much austerity to provide additional exports would be unwise; some increase of the domestic supply is necessary to furnish production incentives for workers. When probable price factors are taken into account, the Harriman committee contends that in this respect the predictions of the Paris participants are also open to criticism. The cost of food and raw materials—the two leading imports—are not likely to fall by 20 per cent over the next four years, as the CEEC assumes. On the contrary, world shortages may easily prevail for more than four years, the report states.

U.S. AID POTENTIAL. Applying these and other corrections to the Paris report data, the expected balance of payments deficit is reduced by \$1 to \$1.5 billion for 1948, and possibly by as much as \$5 billion for the next four years. The CEEC predicted a deficit of \$8 billion in 1948 and \$22.4 billion for 1948-51. What the United States can and should provide, according to the Harriman committee, is about \$5.75 billion next year and a total of between \$12 and \$17 billion for the four years, although it is emphasized that outlays in the years ahead cannot possibly be gauged with any accuracy. Moreover, the long-term estimate of \$12-\$17 billion assumes that some \$5-\$6 billion of Europe's needs will be met through the World Bank and private finance. What this country contributes should, however, be on a year-to-year basis—"it must be subject to constant, vigilant review of the Congress." Food, fuel and fertilizer needs should be met on a grant-in-aid basis, while capital equipment should be financed by long-term loans. Raw materials should be paid for in local currencies, the proceeds being used to further internal development.

To administer the aid plan, it is recommended that a new government agency be created, headed by a director appointed by the President and confirmed by the Senate. To advise on matters of high policy, there should be a board of directors composed of representatives of the various government departments concerned in the undertaking.

IMPORTANCE OF WESTERN GERMANY. In its examination of the conditions of recovery in Europe, the Harriman committee states categorically that American policies in Germany "are of all-importance to the success of any aid program." Any intention to permit a resurgence of German military power is denied. It is noted, however, that the apparent savings to the United States by relatively limited expenditure in Germany has been more than offset by the consequent deterioration in general European reconstruction. Therefore, the view is expressed that the program prepared by the CEEC may

have to be revised. "We believe that the amount of aid allotted to Germany may have to be higher than was set at Paris," the committee concludes.

The committee's appraisal of the relation of Germany to European recovery will unquestionably evoke the greatest controversy among the members of the CEEC, particularly on the part of France. The French Communists have all along capitalized on the not unnatural fear of the French people that German industrial recovery may bring about another resurgence of German military might; and the charge has been made that American policy is deliberately aimed at such a result. Actually the Harri-man report assumes an increase in western German production in line with the revision of permitted level-of-industry planned by the Anglo-American occupation authorities which would enable the Germans to match the output achieved in 1936. Some of the nations entitled to reparations, however, have objected to the selection of 1936 as the yardstick for the revival of German industry. During that year, they contend, Germany was actually enjoying a business boom.

In reply to the contention of the Paris group that

WHAT FACTORS SHOULD DETERMINE U.S. POLICY TOWARD CHINA?

Secretary Marshall's proposal of November 11 that \$300 million be spent on aid to the Chinese government during the fifteen-month period beginning April 1, 1948 constitutes an important step in the evolution of China policy. The decision presumably reflects in part the desire expressed by some Republican leaders, perhaps especially Senator Vandenberg, for inclusion of China in general foreign aid proposals. Various news items of the past few months, not all of them speculative, suggest that further military assistance to Nanking is also contemplated. The economic measures proposed by the Secretary of State, however, have not yet been formally drafted and may be expected to arouse considerable discussion when presented to Congress.

FAR EASTERN STRATEGY. In Washington China is viewed primarily as a strategic factor in the relations of the United States and the Soviet Union. The over-all purpose, therefore, is to bolster Nanking against the Chinese Communists. But the achievement of this objective has been complicated by the marked weakness of the Central government, and to a lesser extent by Washington's desire to avoid measures that might stimulate large-scale Russian aid to the Communists in answer to new American assistance for Chiang. There has been much speculation about Soviet aid, and it is true that certain Soviet actions late in 1945 and in the early months of 1946 helped the Communists in Manchuria. But no proof of any current or recent activity along these lines is publicly available.

German recovery should not have priority over that of the victims of Nazis aggression, the President's committee observes that, "where the granting of priority of any of the participating countries over Western Germany can be shown to have an adverse effect on production, then the priority should be denied." But even though this statement is followed by another agreeing that the French steel industry should have priority, there is reason to believe that the committee's views on the German problem will be subject to searching criticism abroad.

Aside from these controversial aspects the Harri-man report is a significant step in the implementation of the Marshall proposal. No longer can it be said that Congress has been called on to act without proper information. The outlines of a feasible aid program have now been carefully developed; they show clearly that although many important items are in short supply here, the United States nevertheless has the capacity to assist effectively the sixteen European nations which are determined to preserve the Western way of life.

HAROLD H. HUTCHESON

While China is considered important from the strategic point of view, increasing emphasis is being placed on Japan as the key American base in the far Pacific. This tendency is not new, but it has been accelerated in part by the relative stability and orderliness of defeated Japan as compared with the confusion reigning on the nearby continent. In a military sense China, along with South Korea, thus becomes an adjunct of Japan. Since Nanking has proved unable to bring the entire country under its rule, policy-makers are encouraged to think of China not as a unit, but as a composite of bases and zones of varying military significance.

Opinions about strategy are presumably quite varied. But Manchuria, largely controlled by the Chinese Communists, has probably been written off by Washington as lost. North China is very likely regarded as a doubtful area, in which Nanking should retain its positions—or, at least, hold on as long as possible. Central and South China are obviously indispensable for Nanking's survival, and in the judgment of some observers seem to offer the possibility of being fashioned with American aid into a bastion of Central government power. At the same time, it is the China coast rather than the interior which is most important strategically in relation to Japan. The United States is already the informal possessor of a coastal base at Tsingtao on the Shantung peninsula, and it would not be surprising if a new military aid program resulted, in effect, in the creation of additional bases elsewhere.

Special emphasis would probably be placed on the economic rehabilitation of Formosa and its use as a military training ground for Chinese forces—partly because Formosa is remote from the civil war fronts, and also because it is an obvious part of any military system based on Japan.

WHAT IS GOOD STRATEGY? Since at present both Nanking and the Communists lack the power to control the whole of China, a zonal conception of China has a certain strategic validity. The question, however, arises: for how long? Although on paper the Kuomintang's problems might seem more manageable if restricted to a smaller territory, the political implications of such a change could be expected to have an extremely unsettling effect on Nanking's subsequent position. Parts of Central and South China, especially the former, are already areas of civil strife, and Formosa's future stability is questionable, in view of last winter's uprising which Nanking suppressed by force. On the other hand, those who escape these difficulties by holding that the United States can make Nanking the government of the whole of China within a few years either greatly underestimate the dimensions of the problem or have in mind far more extensive intervention by this country than anyone has publicly suggested.

Moreover, strategic policy toward a country of some 400 million people must take into consideration underlying economic and political factors. China, for example, is in need of far-reaching agrarian reform. It must be borne in mind, too, that the issues which agitate the Chinese are for them domestic problems that have been awaiting solution for many decades. If the United States is to succeed in China, it must win the friendship of the Chinese people. This country, it is true, has had a historic fund of good will in China, but in recent years our prestige has declined.

DEMOCRATIC LEAGUE AS A SYMBOL. The recent suppression of the Democratic League, the third most significant political group in China, is a symbol of the issues facing the United States. The League participated in General Marshall's peace negotiations, and he was probably referring to some of its members, as well as to other groups and individuals, when he urged, in his statement of January 7, 1947, that China's liberals receive more power. General Wedemeyer consulted with League representatives in the course of his mission, and during October Ambassador J. Leighton Stuart interceded with Nanking on the League's behalf. Yet on

October 25 Lo Lung-chi, one of the organization's leaders, observed that Nanking seemed to interpret prospective American support as a signal for suppressing and liquidating China's liberals.

During the past half-year or more the attitude of the United States toward the Chinese internal situation has undergone a marked change. Previously, especially in the early phase of General Marshall's mission, American spokesmen who stressed the need for reform usually advocated the achievement of unity, democracy and peace. Today the reforms sought by the United States appear to be those considered necessary to enable Nanking to fight more effectively. Although this shift in emphasis has attracted little comment in the United States, it has not gone unnoticed in China.

It may be freely admitted that shaping China policy is not a simple matter in the present state of international tension. But past actions have been largely unsuccessful, and there is every sign that further measures along similar lines will fail in the future. It appears essential, therefore, to make a fresh approach to the Chinese situation, recognizing that the protection of American interests—commercial, strategic, political—cannot be assured except under conditions of peace and reform. Moreover, even if China is approached from a predominantly strategic point of view, it is essential that the Chinese people identify the name of the United States with civil peace, not civil war, with genuine progress, not retrogression.

LAWRENCE K. ROSINGER

(The last in a series of articles on American policy in China.)

The Political and Legislative History of Liberia, by Charles Henry Huberich. New York, Central Book, 1947. \$30.00

In addition to relating the political history of Liberia to 1847, these two posthumous volumes are a useful compilation of laws, correspondence, statistical information and biographical notes which will be of great value to students of Liberian history.

The United States in World Affairs, 1945-1947, by John C. Campbell and the Research Staff of the Council on Foreign Relations. New York, Harper, 1947. \$5.00

This well-organized volume, which marks the resumption of the annual survey inaugurated by the Council on Foreign Relations in 1931 and continued through the year 1940, offers a lucid and comprehensive summary of the many-faceted foreign policy of the United States since V-E Day. Special emphasis is placed on the problems of peace-making, the organization and achievements of the United Nations, the activities of other international agencies, the problem of international trade and finance, and the issues at stake between the United States and Russia. This survey, whose value is enhanced by a selected bibliography and a chronology of events, should prove particularly useful in college courses on international relations and American diplomacy.

FOREIGN POLICY BULLETIN. Vol. XXVII, No. 5, NOVEMBER 14, 1947. Published weekly by the Foreign Policy Association, Incorporated. National Headquarters, 22 East 38th Street, New York 16, N. Y. BROOKS EMENY, *President*; HELEN M. DAGGETT, *Secretary*; VERA MICHELES DEAN, *Editor*. Entered as second-class matter December 2, 1921, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Four Dollars a Year. Please allow at least one month for change of address on membership publications.

F. P. A. Membership (which includes the Bulletin), Six Dollars a Year
Produced under union conditions and composed and printed by union labor.